

Message Text

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22/11

ACTION EA-09

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 OMB-01 XMB-02

INT-05 CIAE-00 INR-07 NSAE-00 /032 W

----- 101392

R 100618Z SEP 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 77

C O N F I D E N T I A L MANILA 13883

C O R R E C T E D C O P Y (PARA 3 LINE 5)

E.O. 11652: GDS

TAGS: EINV, PINS, PINT, RP, US

SUBJECT: INVESTMENT CLIMATE AFFECTS U.S. INVESTMENT IN
PHILIPPINE LOGGING OPERATIONS

REF: MANILA 7893

1. SUMMARY: DETERIORATING INVESTMENT CLIMATE FOR LOGGING,
COUPLED WITH VIOLENCE IN TIMBER AREAS IN SOUTHERN PHILIPPINES,
HAS INFLUENCED DECISION BY BOTH WEYERHAUESER AND BOISE CAS-
CADE TO WITHDRAW THEIR PARTICIPATION FROM LOGGING CONCES-
SIONS. NEVERTHELESS, BOTH COMPANIES HAVE AND PLAN TO RE-
TAIN OR EVEN EXPAND THEIR OTHER INVESTMENTS IN THE PHILIP-
PINES. END SUMMARY.

2. LEAD ON MANILA ASSOCIATED PRESS NEWS ITEM DATED SEPT. 3
STATES QUOTE WEYERHAUESER PHILIPPINES... ANNOUNCED FRIDAY
IT IS ENDING ITS LOGGING OPERATION IN THE PHILIPPINES...
END QUOTE. NEWS ITEM ALSO NOTES THAT WEYERHAUESER CLOSED
ITS LOGGING OPERATION ON BASILAN ISLAND (SOUTH OF MINDANAO)
IN JUNE. IMPLICATION IS THAT WEYERHAUESER WILL NO
LONGER CONDUCT LOGGING OPERATIONS AND MAY BE LIQUIDATING ITS
INVESTMENT. IN FACT, AP STORY WAS OLD NEWS BASED ON PRESS RELEASE
ISSUED BY WEYERHAUESER ON AUGUST 20 IN DAVAO CITY, MIN-
DANAO. WEYERHAUESER HAS NOT ABANDONED IDEA OF CONDUCTING
LOGGING OPERATIONS IN THE PHILIPPINES. HOWEVER, COMPANY
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DOES FEEL THAT INVESTMENT CONDITIONS FOR LOGGING OPER-

ATIONS HAVE DETERIORATED IN RECENT MONTHS AND, COMBINED WITH THE SECURITY PROBLEMS OF OPERATION IN FAR SOUTH, THESE CHANGING CONDITIONS WERE SUFFICIENT TO PERSUADE COMPANY TO CEDE ITS ONLY TWO LOGGING CONCESSIONS WHICH WERE BOTH IN AREAS WITH INSURGENCY PROBLEMS. IN DISCUSSING THE CURRENT INVESTMENT CLIMATE, WEYERHAUESER OFFICIAL NOTED THAT NOT ONE, BUT SEVERAL FACTORS TAKEN TOGETHER HAD INFLUENCED THE COMPANIES THINKING; A) THE LOSS OF 11,000 HECTARES OF A 20,000 HECTARE LOGGING CONCESSION WHEN LAND WAS SUDDENLY DESIGNATED FOR A RESETTLEMENT SCHEME FOR MUSLIM SURRENDEREES BY PRESIDENTIAL DECREE (SEE MANILA 7893); B) ANTI-DUMMY DECISION; C) LIMITATION ON EXPORTATION OF LOGS; D) ABOLITION OF EXECUTIVE SECRETARIAT AND PURGE OF MELCHOR, WHICH SEVERED ANY TIES WHICH THE COMPANY MIGHT HAVE HAD WITH MALACANANG; E) SECURITY SITUATION IN THE SOUTH; F) EARTHQUAKE WHICH DAMAGED COMPANY'S VENEER PLANT; AND, FINALLY GENERAL ANTI-US SLANT OF RECENT GOVERNMENT DECISIONS.

3. IN SPITE OF THESE PROBLEMS, WEYERHAUESER IS STILL NEGOTIATING FOR 70,000 HECTARE LOGGING CONCESSION IN AGUSAN, NEAR BUTUAN IN NORTHERN MINDANAO. HOWEVER, EMBASSY UNDERSTANDS NO INVESTMENT WILL BE MADE UNLESS WEYERHAUESER HAS MANAGEMENT CONTRACT QUOTE GUARANTEED BY FM HIMSELF. END QUOTE. WEYERHAUESER BELIEVES SUCH A GUARANTEE MAY BE FORTHCOMING. EVEN IF WEYERHAUESER DOES NOT TAKE ANOTHER LOGGING CONCESSION, THE COMPANY STILL PLANS TO REMAIN ACTIVE IN THE PHILIPPINES. FOR EXAMPLE, WEYERHAUESER OWNS CAPRICORN CORPORATION, A BUYING OPERATION WHICH WILL BE PURCHASING LARGE AMOUNTS OF HARD WOOD. WEYERHAEUSER IS ALSO CONSIDERING MOVING ITS REGIONAL OFFICE FROM SEOUL TO MANILA. COMPANY OFFICIALS DECIDED NOT TO ATTEMPT TO LOBBY OR PRESSURE GOP POLITICAL AND ECONOMIC AUTHORITIES TO IMPROVE CONDITIONS FOR LOGGING OPERATIONS BECAUSE OF THEIR CONCERN THAT THEIR OTHER INVESTMENTS IN THE PHILIPPINES MIGHT THUS BE JEOPARDIZED (AS WELL AS THEIR ASSESSMENT THAT IT WAS A FIGHT THAT THEY COULD NOT WIN IN THE PRESENT POLITICAL CLIMATE).

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4. FOR SOMEWHAT SIMILAR REASONS, BOISE CASCADE HAS DECIDED TO WITHDRAW FROM ITS MANAGEMENT CONTRACT WITH ZAMBOANGA WOOD WHICH EXPIRES THIS MONTH. IN ADDITION TO DETERIORATING INVESTMENT CLIMATE, BOISE CASCADE CITED PROBLEMS WITH PHILIPPINE PARTNER AS BASIS FOR DECISION. BOISE REMAINS SATISFIED, HOWEVER, WITH ITS PARTNERSHIP ARRANGEMENT IN BATAAN PAPER AND PULP. AT PRESENT, BOISE HAS A 23 PERCENT EQUITY IN BATAAN AND

A MANAGEMENT CONTRACT, AND PLANS TO EVENTUALLY REACH
AN EQUITY OF 35 PERCENT IN THE COMPANY.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TIMBER, INDUSTRIAL PLANTS, CLOSURE OF OFFICES
Control Number: n/a
Copy: SINGLE
Draft Date: 10 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA13883
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760351-0769, D760342-0098
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760973/aaaackmx.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 MANILA 7893
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAY 2004 by ShawDG>; APPROVED <27 SEP 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INVESTMENT CLIMATE AFFECTS U.S. INVESTMENT IN PHILIPPINE LOGGING OPERATIONS
TAGS: EINV, PINS, PINT, EPAP, EIND, RP, US, WEYERHAUSER, BOISE CASCADE, WEYERHAUESER
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006